

MEMORANDUM

To: Board of Finance

From: Barbara L. Grimes,
General Manager, BED

Date: April 20, 2011

SUBJECT: BED Revenue Bond

At the April 13, 2011 of the Board of Electric Commissioners, they approved moving forward with a Revenue Bond for the Department.

After exhausting our efforts to make available the Debt Service Reserve Fund, and given the last vote on the General Obligation Bond, it became clear that pursuing Revenue Bond financing was the right choice. The proposed Revenue Bond would be for \$13,575,000, which would finance the following:

- (1) \$7,200,000 (Smart Grid project 50% share);
- (2) \$2,675,000 (Velco equity);
- (3) \$2,700,000 (Highgate Converter Station improvements);
- (4) \$1,000,000 (Debt Service Reserve requirement)

BED was part of a State wide grant application for the Smart Grid (Meter) project. The project has a total cost of \$14, 300,000, half of which will be covered through a grant with the Department of Energy. The \$7,200,000 would be for BED's 50% share.

BED has been making major investments in VT Transco ("Velco") over the past several years. This investment opportunity for BED provides it's ratepayers a 12.5% average return on investment, which ultimately helps lower rates. \$1,150,000 of the \$2,675,000 investment relates to the East Avenue reliability project. To help offset the cost of Velco doing their part of the project (which is then billed to us over a 10 year period), they allow us to invest that same amount in the 12.5% equity. The balance of \$1,525,000 would be for the December 2011 annual investment based on BED's pro rata share of total transmission costs.

The Highgate Converter Station was constructed in 1985 for bringing Canadian power (Hydro Quebec) into Vermont. This original control system has exceeded the life expectancy of 25 years, and has begun to show it's age by more frequent failures. The total cost for making the major capital improvements to the Converter Station is approximately \$35,000,000. BED's 7.7% ownership share would be \$2,700,000.

The General Bond Resolution of the City established a Debt Service Reserve Fund ("Fund") for Revenue Bond financings. We must deposit and maintain in the Fund an amount equal to the maximum annual debt service (principal and interest) in any fiscal year. This deposit would be used for making the final year of debt service on the bond. In addition, there will costs associated with the issue of this Bond. We assumed the debt service reserve requirement and issue costs to be approximately \$1,000,000.